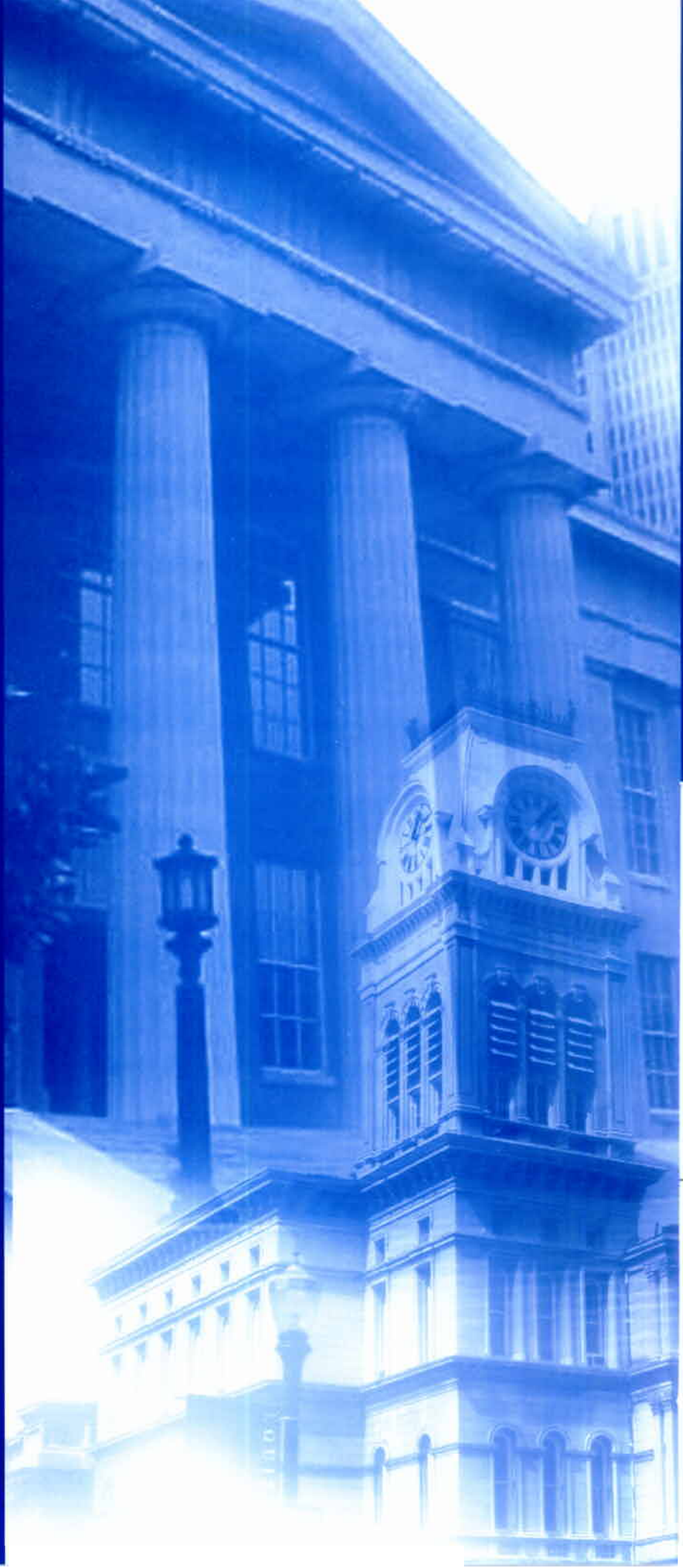




Jerry E. Abramson
Mayor

26 Member
Metro Council

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Metro Government.



Office of Internal Audit

Department of
Human Services

Emergency Assistance
Fund



Audit Report

Department of Human Services

Emergency Assistance Fund

April 2004

Table of Contents

Transmittal Letter.....	2
Scope and Opinion.....	2
Internal Control Rating	4
Introduction.....	5
Summary of Audit Results.....	6
Observations and Recommendations.....	8
Emergency Assistance Fund.....	8



JERRY E. ABRAMSON
MAYOR

KELLY DOWNARD
PRESIDENT, METRO COUNCIL

LOUISVILLE, KENTUCKY
OFFICE OF INTERNAL AUDIT

MICHAEL S. NORMAN, CIA
CHIEF AUDIT EXECUTIVE

Transmittal Letter

April 30, 2004

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall

Re: Audit of Department of Human Services Emergency Assistance Fund

Scope and Opinion

We have examined the operating records and procedures of the Emergency Assistance Fund (EAF) administered by the Metro Department of Human Services (DHS). The primary focus of the audit was the operational and fiscal administration of the activity. This included how DHS manages, records, and monitors fiscal activity processed using the EAF checking account.

As a part of our examination, we performed an evaluation of the internal control structure. Our examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

The operating procedures associated with Department of Human Services Emergency Assistance Fund were reviewed through interviews with key personnel. The operational and fiscal administration of activity using the Emergency Assistance Fund checking account was reviewed. The scope and methodology of the areas reviewed will be addressed in the Observations and Recommendations section of this report. Our examination would not reveal all weaknesses because it was based on selective review of data.

The internal control rating for each area reviewed is on page four. These ratings quantify our opinion regarding the internal controls used in managing the activity and identify areas requiring corrective action.

It is our opinion that the overall internal control structure for the administration and processing of Department of Human Services Emergency Assistance Fund is satisfactory. No major problems were noted in this area. However, some opportunities were noted. Examples of these include the following.

- The Department of Human Services maintains an ancillary bank account for Emergency Assistance Fund checks. While no problems were found, these types of accounts have greater risk than activity processed through the Metro Government's financial system. The Metro financial system, with its inherent internal controls and improved capabilities, may provide opportunities to be a more efficient and effective processing tool.
- While program eligibility guidelines are documented, functional operating policies and procedures are not provided for Emergency Assistance Fund processing, primarily the day-to-day activity. This may lead to inconsistencies in administration and management of activities.
- Monitoring and reconciliation of fiscal activity could be improved. Timely bank account reconciliation by Metro Finance is needed. Some minor improvements could be made regarding the Department of Human Services reconciliation documentation. These improvements would provide stronger oversight to adequately protect the funds and increase the reliability of the financial statements.
- The current systems used to record activity (computer system and client files) could be enhanced to better document review of individuals' eligibility and EAF payments. This would result in more efficient and effective information management, as well as, strengthen the reliability of records.

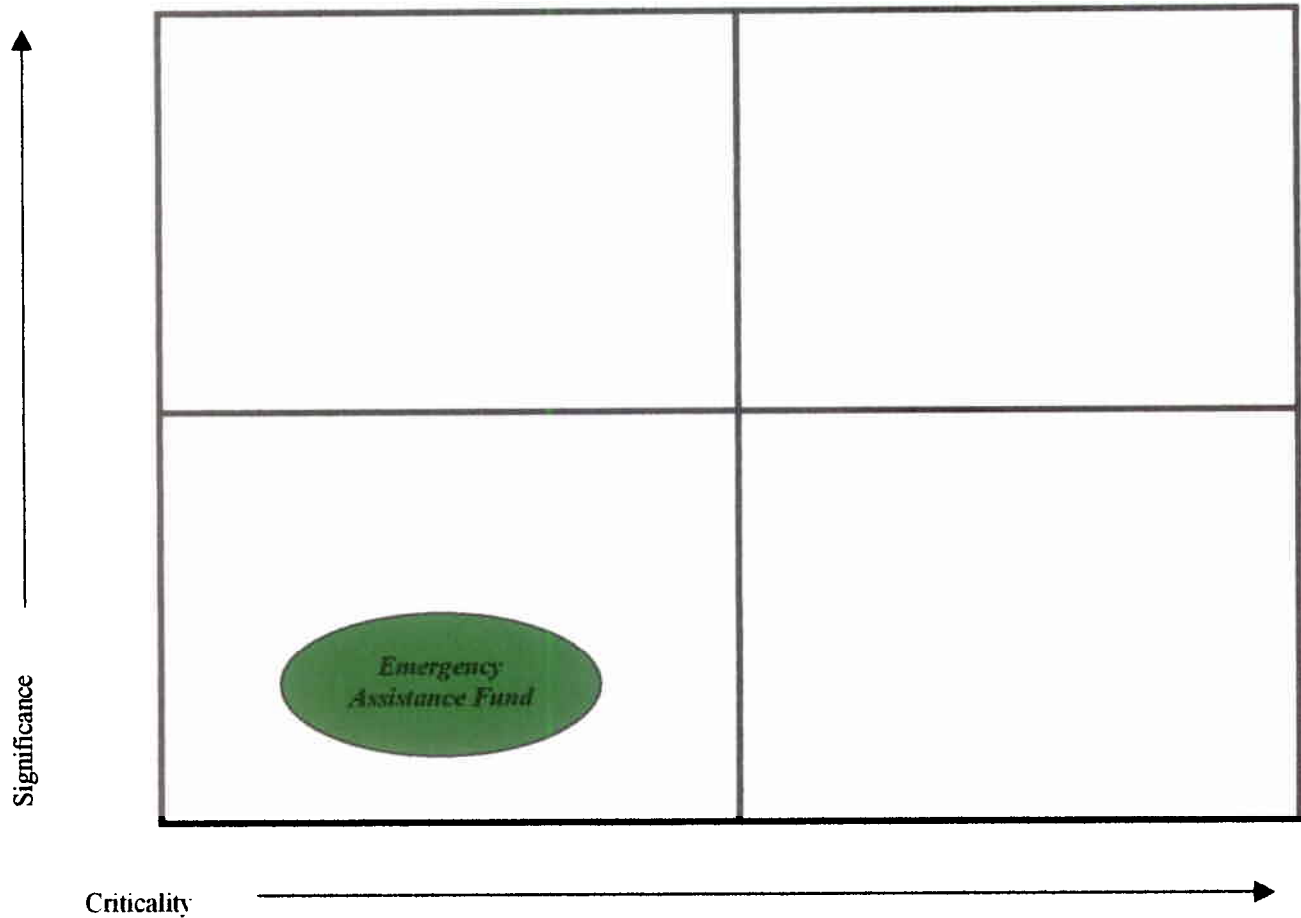
The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the Department of Human Services Emergency Assistance Fund.



Michael S. Norman, CIA
Chief Audit Executive

cc: Louisville Metro Council Audit Committee
Louisville Metro Council Members
Deputy Mayors
Secretary of the Cabinet for Health and Family Services
Director of the Department of Human Services

Internal Control Rating



<u>Legend</u>			
<u>Criteria</u>	<u>Satisfactory</u>	<u>Weak</u>	<u>Inadequate</u>
<u>Issues</u>	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<u>Controls</u>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<u>Policy Compliance</u>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<u>Image</u>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<u>Corrective Action</u>	May be necessary.	Prompt.	Immediate.

Introduction

The Jefferson County Welfare Department, now known as the Department of Human Services (DHS), was organized by Fiscal Court action on August 1, 1932 and assumed responsibility for the City of Louisville's welfare services on December 1, 1961. Since that date, the Department of Human Services has existed as a vehicle for maintaining the quality of life of the community's residents. The vision of the department is to strengthen the community through a coordinated and comprehensive human services delivery system. This is accomplished through direct case management, collaboration and partnerships, along with public policy and advocacy efforts.

The DHS Family Services Division is responsible for providing emergency assistance to individuals in immediate need with no other resources. Assistance is provided in the basic areas of shelter and utilities. Eligible categories for the Emergency Assistance Fund include:

1. Loss of income/support because of death, desertion, separation, incarceration, divorce or domestic violence.
2. Loss of wages due to lay-off, employer who has gone out of business or strike.
3. Individuals who quit/are fired, meeting particular criteria such as illness of household member, discrimination if formal complaint filed, or specific conditions that render continued employment unreasonable.
4. Interruption of child support resulting in a financial crisis.
5. Mismanagement/exploitation when an applicant is assessed as incapable of managing monies or resources or has been exploited by another individual.
6. Pregnancy of applicants with zero income and having children in the household.
7. Illness when an applicant is unable to work due to physical and/or mental illness.

Eligibility based on illness must be documented by a physical/mental health care provider. Length of eligibility for financial assistance is once in a twelve-month period for employable eligible applicants, up to six months for temporary illness and up to nine months for pending Social Security Insurance (SSI) for unemployable eligible applicants. Applicants must be residents of Jefferson County.

The EAF includes reimbursements for SSI recovery. In these cases, emergency assistance clients are expected to apply for SSI. Some or all of the funds advanced to these clients can be recouped if the applicants are approved for SSI for any of the periods that emergency assistance funds were used. In cases where SSI payments exceed emergency assistance expenditures, client refunds are processed for the balance.

The Emergency Assistance Fund checking account may be used to provide help through some other programs. Payments are initially charged in the general ledger using the Emergency Assistance Fund checking account. Each program is monitored to ensure funds do not exceed the allotment provided by the funding source. If necessary, an adjusting entry is prepared monthly to record the expenditure in the program accounts. The following programs are processed in this manner:

- The Community Partnership for the Protection of Children (CPPC) program requires that there is at least one child in the family.
- Federal Emergency Management Agency (FEMA) eligibility is determined and approved by Community Ministries. The funds for these payments are administered by the ministries who provide the funds to DHS in order to process the payments.

- Supplemental Assistance for Facilities to Assist the Homeless (SAFAH) funds are from a Federal grant to obtain housing for the homeless.

Financial accounting and client activity for the Emergency Assistance Fund are recorded in DHS's CORSAIR system. A dedicated zero balance bank account is used to issue checks and deposit receipts to/from the EAF. Amounts for checks processed against the EAF account are paid out of the (former) Jefferson County general fund bank account and any amounts deposited to the EAF are swept into the general fund account. Checks are initiated and printed at DHS. Ultimately, activity is recorded in the Metro financial system by journal entry.

The fiscal year 2004 budget for the Department of Human Services is \$16.1 million. This is comprised of Metro Government General Fund, Federal and State funds, along with agency receipts. This includes \$1.5 million for the Emergency Assistance Fund. For fiscal year ending June 30, 2003, the Emergency Assistance Fund served approximately 2,000 families, with 7,700 checks being processed through the EAF checking account.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not conducted any prior reviews of the Department of Human Services Emergency Assistance Fund.

III. Statement of Auditing Standards

Our audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

We conducted a formal study of the internal control structure in order to obtain a sufficient understanding to support our final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

Our examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing came to our attention during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials

An exit conference was held at the Department of Human Services administrative office on April 7, 2004. Attending were Joanne Weis, Ron Jackson, Buddy Parker, Mary Bryan, Joe Spalding and Kyle Moorman representing the Department of Human Services; Mike Norman and Mark Doran representing Internal Audit. Final audit results were discussed.

The views of the Department of Human Services officials are included as responses in the Observations and Recommendations section of the report.

Observations and Recommendations

Emergency Assistance Fund

Scope

The Department of Human Services (DHS) Emergency Assistance Fund (EAF) procedures were reviewed through interviews with key personnel. The scope of this review was to determine the adequacy of internal controls for the administration of the EAF, which includes how activity is processed, recorded and monitored. There were 2,873 EAF payments totaling \$777,150 for the period July 1, 2003 through November 20, 2003. This represented 1,674 clients, some of whom may have received more than one payment.

A variety of tests were performed in order to examine EAF activity for the review period.

1. A sample of twenty was selected from the population of transactions. The sample included the following.

- Nine emergency assistance transactions, including Homeless Family Response Team (HFRT)
- Six Social Security Insurance (SSI) Recovery cases
- Two Client Refund - Social Security Insurance (SSI) cases
- One Community Partnership for the Protection of Children (CPPC) case
- One Federal Emergency Management Agency (FEMA) grant case
- One Supplemental Assistance for Facilities to Assist the Homeless (SAFAH) grant case

The sample was examined to assess adherence to DHS policies and procedures relating to the Emergency Assistance Fund, along with the completeness and accuracy of records.

2. The population of EAF transactions recorded in the DHS CORSAIR system for the review period was reviewed using computer-assisted audit techniques. Information was analyzed for check number sequence and transactions involving DHS staff. These analyses did not involve the review of actual documentation for the entire population. The analytical results were dependent upon the integrity of the information recorded in the CORSAIR system. Some transactions were identified for further review and the supporting records were examined to determine the appropriateness of activity.

The following concerns were noted.

Observations

There were some minor problems noted with the administration of the Emergency Assistance Fund activity. However, the overall internal control structure is satisfactory. Examples of concerns include the following.

- DHS maintains a checking account for EAF activity instead of processing payments through the Metro Louisville Finance Department. While DHS has taken compensating measures to mitigate potential problems (e.g., positive pay, activity is

posted to Metro financial system, etc.), there are greater risks associated with maintaining any ancillary account (e.g., ensuring proper segregation of duties, additional reconciliation requirements, etc.). The Metro Government's new financial system, with its improved capabilities, may provide opportunities to be a more efficient and effective processing tool.

- Some checks received by the Department of Human Services (e.g., SSI reimbursements) may be withheld from deposit awaiting supporting documentation. While no problems were noted and these items are maintained in a locked file cabinet, holding checks increases the likelihood that they could be lost or misplaced.
- DHS should be commended for maintaining documented guidelines for the Emergency Assistant Fund. While the eligibility requirements and review process are documented, there are not any detailed policies and procedures for the EAF processing. As a result, employees do not have readily available guides to assist in processing, recording and monitoring the activity. This could lead to inconsistencies in administering funds, insufficient monitoring and noncompliance with requirements.
- Metro Finance staff are responsible for reconciling the EAF bank account with activity reports submitted by DHS. At the time of this review, the most recent reconciliation completed was for a period six months prior. This will be directed to the attention of the appropriate personnel in Finance. While Metro Finance is responsible for performing this reconciliation, DHS is ultimately accountable for these funds.
- Documentation for the reconciliation of EAF activity with the Metro Government financial statements could be improved. There is not sufficient documentation to identify who performs and reviews the reconciliation. DHS staff verifies that agency records (e.g., deposits/credits posted via journal vouchers) are reflected on the Metro financial system accurately. While some notations are made during the process, there is no signature of the preparer or reviewer.
- There were a few problems related to the completeness of records and accuracy of activity processed.
 - The records do not adequately document the approval of the vouchers. Social Workers review applications for assistance and determine whether an applicant qualifies for emergency assistance. If the applicant qualifies, the Social Worker prepares a voucher using the DHS CORSAIR system. The vouchers are reviewed/approved in the system by a Social Worker Supervisor before a check is issued. The CORSAIR system does not identify the supervisor approving the payment and there is no other documentation required in the hard copy client file to document the approval. This makes it impossible to verify that payments are authorized by appropriate individuals, and does not provide a proper level of accountability for the transactions.
 - In one of the twenty cases examined, the case file information did not sufficiently document approval of the client's application. In cases where an applicant's eligibility is not certain, at least two members of an established Case Review Team (consisting of the three Social Worker Supervisors and the Human Services Program Manager) will review the application. The review and decision as to eligibility are documented on a Case Review Team document maintained in the client file, as well as in the CORSAIR system. Although there was a Case

Review Team document in the client file, the individuals who reviewed the case and its resolution were not documented.

- DHS staff has experienced some difficulties related to the electronic management of EAF information. Until July 1, 2003, information was processed electronically using communication lines provided by the Jefferson County School System. Technology changes within the school system, along with the fact that these lines had become vulnerable to viruses, resulted in DHS processing some EAF activity manually. While DHS personnel are working in conjunction with the Metro Department of Technology staff to address the problem, it likely hinders efficient and effective management of activity.

Recommendations

Appropriate Department of Human Services personnel should take corrective action to address the concerns noted. Specific recommendations include the following.

- ✓ Management should assess the risk of maintaining a separate checking account for EAF. While it may be determined that the current treatment of funds may be the most efficient given the nature of their use, consideration should be given to processing EAF payments through Metro Finance. The new LEAP financial system may be more capable of accommodating EAF activity than the former financial system. This would help take advantage of the internal controls inherent within the Metro Government's system and would resolve the financial risk of maintaining a separate checking account.
- ✓ Revenue receipts (checks received by DHS) should be deposited as soon as possible to ensure assets are safeguarded and for cash management purposes (e.g., interest accrual). Deposit timeliness should consider applicable policies and procedures, as well as, the ability to hold funds in a secure environment.
- ✓ A documented EAF processing guide should be developed and accessible to staff. This should correspond with and supplement applicable guidelines. This documentation should include sufficient detail for each duty performed, along with copies of forms used. In addition, training of key personnel will help ensure consistent adherence to the requirements. These procedures should remain available for staff members to reference for specific tasks processing and monitoring requirements. These would be extremely beneficial as a training guide for new staff members assigned to manage and oversee this activity.
- ✓ A major component of any reporting system is proper reconciliation and monitoring. It is imperative that administrative staff review the information on a regular basis. This includes reconciliation of bank account activity, ensuring that check numbers are accounted for so that there are no gaps in sequential numbers, along with monitoring of internal records for completeness and adherence to requirements. Ultimately, transactions should be reconciled to the Metro financial statements to ensure the accurate and timely reflection of activity. In order to promote proper segregation of duties, an administrator independent of the actual processing of activity should perform this function.
- ✓ All documentation should be signed/dated as approved by appropriate personnel to ensure proper review and oversight of activity. If the approval is performed on-line,

the information recorded in the CORSAIR system should identify the supervisor who approved each transaction.

- ✓ Files and records should be maintained in a complete and accurate manner.
- ✓ Routine supervisory review should be performed to assess the completeness of files and the accuracy of the activity. This includes ensuring that all payments are accurate and adhere to program guidelines.
- ✓ DHS personnel should continue working with the Metro Department of Technology to address problems with the communication lines. This will allow for more efficient access and effective processing of activity.

Department of Human Services Responses

The following steps are being implemented in response to the recommendations of the Emergency Assistance Fund audit.

- Effective April 2004, all revenue receipts (checks) will be submitted as received rather than at the end of the month to our business office. The business office will deposit revenue receipts weekly.
- A procedural guide will be updated, expanded and distributed to all staff that submit data for check processing; outlining each specific step from the NP Social Worker up to and including the approval process and check processing procedures.
- The database program (CORSAIR) used for client data and check processing is in the process of revision. A recommendation for revision includes the ability to designate which authorized staff approve each check and the date of the approval.
- Effective April 2004, a member of the Case Review Team enters a note in the CORSAIR database when a case has been approved.

We were delighted to get such positive feedback regarding the audit and the professionalism of the agency and appreciate the suggestions to further ensure safe, monitored emergency financial assistance procedures.